85350-2

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 25, 1985 VOLUME XXII, NUMBER 42

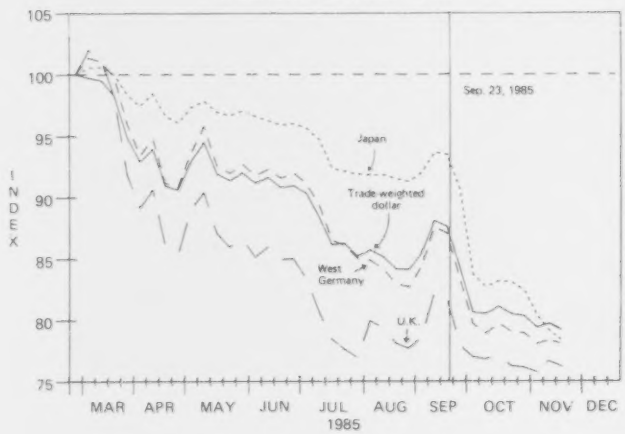
Though The Dollar Has Eased . . .

The apparent success of central bank intervention in reducing the value of the dollar against the world's other major trading currencies has demonstrated the power of coordinated action by the major central banks. Since the finance ministers and central bank governors of the "G-5" group of industrial countries—the United States, West Germany, Japan, France and the United Kingdom—met in New York last September 22, the dollar has depreciated significantly against all of their currencies (see chart). But even before that gathering there had been growing interest in modifying the existing international monetary system. As a result an international monetary conference was held in Washington, D.C. in early November sponsored by two members of Congress, Senator Bill Bradley (D-NJ) and Representative Jack Kemp (R-NY), to discuss reform of the existing floating exchange rate system—an idea whose time may have come.

Actually the recent decline of the dollar is part of a longer-term trend which began in late February when the external value of the dollar peaked. Since that time, the dollar has depreciated on a trade-weighted basis by about 21 percent, of which over nine percentage points has occurred since September 22. The G-5 meeting did, however, accelerate the dollar's fall, particularly against the Japanese yen. The decision by the conferees to undertake a coordinated program to reduce the dollar's external value represents a major step toward international economic cooperation. The effectiveness of this decision was, however, greatly facilitated by the fact that it coincided with the ongoing trend of the foreign exchange markets, rather than an attempt to turn the market around as were most of the previous (and unsuccessful) intervention schemes.

What is more, the G-5 agreement commits the U.S. to a more active role in the exchange markets. This reverses, or at least modifies the prior U.S. policy of intervention only when there was the threat of a "disorderly market"—a term never clearly defined. Although the level and timing of intervention by all of the five central banks is not entirely clear, it is estimated that the total amount of dollars sold by the central banks since September 22 has been over $8 billion. Whereas this amount would have been a mere drop in the bucket in the face of a strong demand for dollars, it has obviously been sufficient at the margin to reinforce the market's recent direction. The chart clearly illustrates the acceleration of the trend immediately following the September meeting.

U.S. DOLLAR DEPRECIATION VS. SELECTED CURRENCIES
(FEBRUARY 27, 1985 = 100)



. . . Longer-Term Measures Are Needed . . .

Although the downward course of the dollar speeded up sharply in the two weeks after the G-5 meeting, since that time, with the exception of Japan, the effect has attenuated with the U.S. currency reverting more toward the longer-term trend. The sharp appreciation of the yen against the dollar has continued, however, due to a sustained and well-publicized policy of strong intervention by Japan and the introduction of domestic policies designed to support it.

Since the end of last September, interest rates have risen substantially in Japan. For example, the three-month Euroyen rate rose from 6.3 percent on September 20 to 7.7 percent on November 15. In the same period, the equivalent U.S. rate fell by three-tenths of a percent. The other G-5 countries have not yet taken clear-cut steps to modify their domestic policies, and it shows in their exchange

Copyright 1985
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

rates against the dollar. The three-month Euromark rate, for example, has only risen by 0.3 percent and the Eurosterling rate by 0.2 percent, compared with the Euroyen's increase of 1.4 percent. Indeed, the Japanese currency last week approached the 200 yen to the dollar level which has been widely suggested as the dollar/yen exchange rate level to which the Bank of Japan aspires.

It is clear that intervention alone will not be adequate to force the dollar down to levels desired by the G-5 members or to keep it down on a sustained basis. As the G-5 joint members' statement points out, there is a need for both a convergence of domestic economic policies and readiness to cooperate more closely, particularly in the areas of monetary and fiscal policies. To date, this coordination and cooperation has been sporadic at best.

In fact, prospects for stronger growth next year in the United States than in most of the other industrial nations, combined with the probability of continuing large U.S. budget, trade and current account deficits, and consequently, higher real interest rates, might well boost the demand for dollars. If so, an accommodative, and probably inflationary, monetary policy in this country would be needed to keep the dollar from rising again in the foreign exchange markets. If the Fed should tighten monetary policy, the dollar could again bounce up.

Between July, 1980 when it began its rapid appreciation and February, 1985 when it peaked, the dollar appreciated by 92 percent on a trade-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/20/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.798	– 1.085	+15.665
Loans to Depository Inst.	1.565	+ .774	– 2.703
Float	1.556	+ .059	+ .664
Total Reserve Bank Credit	196.580	– 1.678	+16.334
Treasury Deposits with Federal Reserve Banks	3.008	– .056	– .501
Currency in Circulation	191.568	+ .177	+12.467
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	124.617	+ .635	+ 6.940
	11/20/85		
Member Bank Reserves:			
Total Reserves Held	44.717	+ 1.115	+ 5.862
Excess (Deficiency)	.980	+ .157	+ .385
Net Free Reserves	.324	– .022	+ .316
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (11/11/85)	613.6	+ 9.0‡	+ 11.4‡
M2 (October '85)	2,533.4	+ 6.9	+ 9.2
M3 (October '85)	3,174.5	+ 7.7	+ 8.5
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/22/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.23%	7.30%	7.31%
* Federal Agencies	7.47	7.49	7.52
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.60	9.26	9.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.75	7.75	7.85

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.60%	Dec.	7.75%
15- 29 days	7.70	Jan.	7.70
30- 59 days	7.75	Feb.	7.70
60- 89 days	7.75	Mar.	7.65
90-179 days	7.66	Apr.	7.60
180-239 days	7.50	May	7.55
240-270 days	7.50		

‡Industrial Paper—Prime			
30- 89 days	7.75%	†Federal Funds Effective Rate	7.40%
90-120 days	7.70		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916r	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,689r	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	4.3r	1.9	1.6
Change in Consumer Prices*	Oct '85n	3.6%	2.4%	3.6%
Change in Producer Prices*	Oct '85	10.8%	– 7.2%	– 1.2%
Civilian Employment (Thousands of Persons) †	Oct '85	107,867	107,544	105,649
Unemployment as % of Civilian Labor Force †	Oct '85	7.1%	7.1%	7.3%
Personal Income*	Oct '85n	$ 3,221	$ 3,207r	$ 3,079
Leading Indicators Composite Index (1967=100) †	Sep '85	170.3	170.2	165.7
Industrial Production Index (1977=100) †	Oct '85	124.9	124.9	122.7
Net Change in Consumer Installment Credit †	Sep '85	$ 10.63	$ 6.31	$ 4.98
U.S. Merchandise Trade Balance †	Sep '85	–$ 15.55	–$ 9.90	–$ 11.54
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Oct '85n	1,760	1,589r	1,564
New Construction Expenditures*	Sep '85	$ 350.4	$ 343.9	$ 321.0
Total Business Inventories †	Sep '85	$ 579.5	$ 578.2	$ 565.5
Total Business Sales †	Sep '85	$ 428.5	$ 430.4	$ 412.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

weighted basis only to plunge by about 21 percent since then. The often rapid and extreme fluctuations of the U.S. currency against those of our trading partners have been a major factor in the current global economic malaise, distorting trade flows, agitating financial markets and creating wide disparities in balance of payments performance.

. . . Including Monetary Reform

The November international monetary conference meeting in Washington explored a wide range of possible alternative methods to reduce foreign exchange market volatility. On one side are those who contend that the present floating system with all of its many defects is, nonetheless, better than the alternatives. At the other end of the spectrum are the advocates of more rigid systems such as a return to a system of fixed exchange rate relationships between currencies, or one based upon an abstract standard such as gold against which each currency has a fixed value.

Whatever kind of system may eventually evolve, it is clear that its efficacy will depend on a recognition that the enormous growth in integration and interdependence of the global economy since the end of World War II demands increasing coordination of national economic policies as a fundamental prerequisite for exchange rate stability. Just as widely varied rates of inflation finally broke the fixed-rate Bretton Woods system in the early 1970s, so, too, the wide discrepancies in trade performance and international financial flows threaten the present floating rate regime. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/6/85)	157,269	– 962	– 2,049
New York City (11/13/85)	33,114	– 365	– 743
Commercial Paper (11/13/85)	288,343	+ 1,966	+54,248

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/6/85)	255,001	+ 2,425	+ 4,184
New York City (11/13/85)	59,700	– 684	– 4,590

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/6/85)	696,570	+ 4,955	+ 50,941
New York City (11/13/85)	152,752	– 570	+ 8,704

Financial Markets

	Friday 11/22/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.46%	– .12	– 1.34
180-Day Bills†	7.68	– .06	– 1.47
Longest Bills†	7.81	– .11	– 1.74
Recent Issues:			
8 1/2s 11/30/87 (When Issued)	8.53	NA	
9 3/8s 9/30/89	9.01	– .17	
9 1/2s 11/15/95 (When Issued)	9.62	NA	
10 5/8s 8/15/15	9.96	– .78	
Municipals:			
Bond Buyer–20 Bond Index* (11/21/85)	8.37%	– .23	– 1.94
Blue List Total ($ Million)	$1,628	–$ 102	– $ 174
30-Day Visible Supply ($ Million)	$4,886	–$1,003	+ $2,568
Total	$6,514	–$1,105	+ $2,394
Corporates:			
Moody's Aa Composite (11/21/85)	10.94%	– .15	– 1.70
30-Day Visible Supply ($ Million)	$1,798	+$ 773	– $2,002
Stocks:			
Dow-Jones Averages:			
Industrials	1,460.78	+ 25.69	+ 259.26
Transportation	687.50	+ 2.69	+ 163.92
Utilities	165.88	+ .05	+ 22.21
65 Stocks	586.88	+ 6.66	+ 110.40
Standard and Poor's 500 Stocks	201.52	+ 3.41	+ 37.00
N.Y.S.E. Composite Index	116.24	+ 1.89	+ 21.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	124,996	– 7,686	+ 46,626

* 46% Taxable equivalent 15.50%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/22/85	Week Ago
Overnight	7.56%	8.50%
1 month	8.00	8.13
3 month	8.00	8.13
6 month	8.00	8.13
1 year	8.19	8.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.50%	9.80%
Long Term (7 to 15 yrs.)	10.05	10.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/22/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01913	52.2800
Canada	.7270	1.3755
Denmark	.1071	9.3350
France	.1269	7.8775
Germany	.3869	2.5845
Italy	.0005732	1744.50
Japan	.004958	201.70
Mexico	.002014	496.50
Netherlands	.3436	2.9103
Switzerland	.4725	2.1165
U.K.	1.4460	.6916

Is your Master Trustee flawless? Are you sure?

At Manufacturers Hanover, flawless reporting, flawless timing and flawless servicing are not mere goals—they are mandates.

We commit our resources to making those mandates a reality for your Master Trust.

Clearly so.

Call Renée San Marco, Vice President, at (212) 819-1580.

Institutional Trust & Agency Division

MANUFACTURERS HANOVER

The Financial Source® Worldwide

The Manufacturers Hanover
Financial Digest

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00203000006990 C 939 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014